

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

MAIL PROCESSING NETWORK
RATIONALIZATION SERVICE CHANGES, 2012

Docket No. N2012-1

RESPONSE OF AMERICAN POSTAL WORKERS UNION, AFL-CIO, WITNESS
MARC SCHILLER TO UNITED STATES POSTAL SERVICE INTERROGATORIES
USPS/APWU-RT2-6-12
(May 23, 2012)

The American Postal Workers Union, AFL-CIO, hereby files the responses of witness Marc Schiller (APWU-RT-2) to the above-listed interrogatories of the United States Postal Service dated May 9, 2012. Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

Jennifer L. Wood
Counsel for American Postal Workers Union, AFL-CIO

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USPS/APWU-RT2-6. Please confirm that on page 5, lines 4-5, of your testimony you make a statement about what you observe is missing from the Postal Service case.

- a. Please identify each document filed in this case that you reviewed to support this claim (by at least filing date, title and filing party).
- b. If you reviewed materials extrinsic to this case upon which you also rely to support your claim, please identify and describe these, as well.

RESPONSE:

I cannot confirm that I made a statement about what I “observe is missing” as that is not the language used in my testimony. However, I can confirm that my testimony reads as follows, “focus on reducing cost has not been balanced with an appropriate evaluation of strategic opportunities to develop new revenue streams.”

(a-b) Please see generally my response to USPS/APWU-RT2-1.

The statement “focusing on reducing cost has not been balanced with an appropriate evaluation of strategic opportunities to develop new revenue streams” is supported by USPS response to APWU/USPS-12 (a) and (b), filed April 19, 2012, which states:

- (a) Review of the marketplace and development of plans are underway, but are not expected to be completed until more clarity emerges regarding future service standards, network changes and pending legislative activity.
- (b) The plan is expected to take into account network and plant infrastructure that emerges from the ongoing rationalization initiative.

These responses indicate that the network changes are being proposed and are planned to be implemented prior to completing a broader review of the marketplace and development of plans to address any identified opportunities. Rather than network changes being informed by future plans, future plans will be constrained by the proposed changes.

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USPS/APWU-RT2-7. Please confirm that on page 5, lines [5-6] of your [revised] testimony, you indicate an opinion that the proposed service standards changes have “the very strong possibility of affecting other postal products.”

- a. Please identify each product you have in mind.
- b. Is it your understanding that the Postal Service expects no impacts upon products? Please explain any affirmative, negative or equivocal response.
- c. Use of the word “other” implies an intended comparison to some product, or that some product is somehow distinct from “other ... products.” Please explain this statement and any intended comparison.
- d. Please explain in general terms what you understand comprises a single postal product.
- e. On what do you rely as the foundation for this statement?

RESPONSE:

Confirmed. Please refer to Appendix 1

- (a) Generally parcel products in both market dominant and competitive classes.
- (b) No. The Postal Service does expect some impacts. Please refer to my response to USPS/APWU-RT2-12(b).
- (c) Our emphasis is primarily on parcel products. “Other” refers generally to parcel products and sub-products. Again, please refer to my response to USPS/APWU-RT2- 12(b).
- (d) I understand a “single postal product” in the general terms of how customers understand and describe postal products. They refer to First Class Mail, Priority Mail and other similar “products” based on their own experience and usage. We reflect the customer usage in our own usage of the general terms. I also understand a product to be defined in 39 USC Section 102 as follows:

6) “product” means a postal service with a distinct cost or market characteristic for which a rate or rates are, or may reasonably be, applied;
- (e) The “foundation” for the above statement relies on our own experience with the Postal Service and postal products and listening to customers describe what they understand to be Postal products.

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USPS/APWU-RT-8. On pages 4-5 you assert, “Furthermore, the overwhelming focus on reducing cost has not been balanced with an appropriate evaluation of strategic opportunities to develop new revenue streams.” Since the Postal Service is welcoming of new revenue streams, please identify each strategic new revenue stream the Postal Service should, in your opinion, be focusing upon.

- a. For each such potential revenue stream, please explain your understanding—and foundation for your understanding—of the opportunity each presents citing, if possible, to publicly available documents illustrating the propriety of what you see as the missing Postal Service focus of its strategic resources upon these revenue opportunities.
- b. For each such potential revenue stream, is it your understanding that other entities or firms are now focusing upon these opportunities? Please explain your response fully.
- c. Do you have any understanding of whether, in addition to entities or firms identified in response to part (b), each revenue opportunity was previously explored or evaluated by commercial interests, although their interest is not ongoing? Please explain your response fully.

RESPONSE:

(a-c) Please refer to pages 24-37 and 38-40 of my revised testimony dated May 1, 2012. In those pages I describe in some detail the opportunities in the parcel market beginning with B2C and expanding to B2B. The opportunities abound in expanding the overnight ground capabilities of USPS parcel products, the repositioning of parcel products to capture greater share of market segments, such as heavier weights and longer-distance/zone ground, and improved features such as tracking and service guarantees.

Please also refer to pages 74-75, Appendix 4 of my revised testimony which describes a potential “Strategic Choice” that may present itself in the near future to the Postal Service and is again specifically relevant to the issue of Network Rationalization. The fundamental choice is between “fully-network-capable” end-to-end parcel product offerings versus a primary focus on “last-mile/first-mile” delivery and pick-up operations. Such a strategic choice would be critical to the future of the Postal Service, is dependent upon a full operating network, and is therefore an important consideration in this docket.

As experienced marketing analysts, managers and executives in the parcel industry with over 60 combined years of experience, the Shorter Cycles team knows that

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fully assessing these market opportunities is a large and complex undertaking. However, we know that market evidence clearly points to such growth opportunities now. The scope of our work in this case is to provide customer insight, subject matter experience and opinion regarding the opportunities available that require consideration now, before the network is dismantled. The scope of our work would not allow us to propose any new specific revenue streams, however, our research and knowledge of the industry indicates that substantial opportunities exist in the parcel market and should be investigated, analyzed, and fully developed into market plans by the Postal Service before moving forward with network rationalization.

The point here is precisely that a substantial opportunity exists to further develop the Postal Service position in the parcel market and that that opportunity is discussed very little in the documents produced by the USPS in the present docket. I believe these opportunities are highly relevant to this case as they have a direct relationship to the quality and scope of the present operating network. I have seen very little analysis of the opportunity in the case materials, or in USPS documents in general. There also is no analysis of what the impact of Network Rationalization may be on the future capabilities of a more fully-competitive parcel-oriented network.

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USPS/APWU-RT2-9. On page 5, you assert that “Relaxing the service standards may cause a significantly increased runoff of existing volume and revenue and it may preclude excellent opportunities to grow in the very attractive Business to Consumer parcel market.” [Emphases added here.]

- a. Would you agree your assertion leaves room for a counter-assertion that relaxing the service standards may not cause a significantly increased runoff of existing volume and revenue and it may not preclude excellent opportunities to grow in the very attractive Business to Consumer parcel market.
- b. Please explain any negative or equivocal response to part (a).
- c. Does the quoted statement from your testimony rely upon any empirical data?
- d. Your testimony evinces familiarity with witness Whiteman’s testimony (see, e.g., APWU-RT-2 at 21, 41); what is your understanding of whether the Postal Service views the volume, revenue and contribution losses estimated by its market research from network rationalization (see, e.g., USPS-T-12 at 22) are or are not “significant”?

RESPONSE:

- (a) My comment on page 5 to which you refer is based on our interpretation of customer responses gained through direct qualitative market research. Please refer to Appendix 1, which describes the full market research undertaking, results and conclusions. Therefore, a theoretical counter-assertion is not relevant; we base our interpretation on what customers have said to us. Though we conclude that a change in service standards “may” significantly increase customer run-off, based on our experience and interviews with customers, we believe there is a significant likelihood that this “will” occur.

Many customers in our interviews wished to discuss “the big picture”; they did not wish to limit their opinions to the basic questions about service standards. Their answers suggest that there is a risk of greater runoff of volume when customers take into account the big picture. In our opinion, the “abandoned” quantitative research, which also put this current proposal in the context of the big picture with resulting projections of volume and revenue loss roughly 4x greater than the second research effort conducted by the USPS, leaves little support for the counter-assertion that the proposed changes in service standards will not have a dramatic impact on customer run-off.

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- (b) Not applicable.
- (c) Please refer to my response to Interrogatory USPS/APWU-RT2-5(c). We believe direct customer comments and opinions are important and relevant.
- (d) Please refer to pages 23-24 of my revised testimony of May 1, 2012, describing the risk exposed when comparing the two known market research efforts of the USPS, the first of which has been described as “abandoned”. The “abandoned” research results projected revenue and contribution losses roughly 4 times greater than the results reported in the second research, which was officially represented by the original testimonies of Elmore-Yalch, T-11 and Whiteman, T-12. In his testimony on the second research effort, Whiteman says the changes “are not expected to constitute a tipping point for major new changes in volume decreases.”

One can surmise then that losses driven by 4 times greater volume decreases would likely be considered “significant” by the Postal Service.

In our opinion, losses driven by 4 times greater volume and revenue decreases should be considered significant.

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USPS/APWU-RT2-10. On page 6, you assert that “most say that they will actively consider alternative means of delivery for parcel.”

RESPONSE:

No response is requested by this interrogatory.

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USPS/APWU-RT2-11. Please confirm that in the last full paragraph on page 6 of your testimony you state that “most [customers] say that they will actively consider alternative means of delivery for parcels.”

- a. Is it your understanding that parcels mailers today actively consider alternative means of delivery for their parcels?
- b. Is it your understanding that tomorrow, or next year, or after network rationalization, that parcels mailers will cease considering their alternatives for delivering parcels?

RESPONSE:

Confirmed

- (a) Yes.
- (b) No. As the value proposition of any product changes due to various factors, many parcels mailers will likely consider alternatives. Therefore, as the USPS considers changes to service standards, shippers are likely to consider alternatives. Of course, this is also true for changes in other factors such as price, service quality and a multitude of other variables. Based on customer comments in our interviews, many will be likely to give greater consideration to alternatives due to the changes proposed by the USPS and the expectations of the customers.

In the future, many customers may cease to consider the USPS as an alternative for delivering their parcels if the USPS fails as an active entity in the market. Many customers express concern whether the USPS will survive over the next five years. Please refer to page 48, Appendix 1, section labeled The Big Picture, first two paragraphs: Customers are greatly concerned about the future of the Postal Service.

Two separate customers specifically described the USPS as in a “death spiral” and at a “dead-end”. Several other customers also expressed concerns about whether the USPS will survive. We do not take such comments lightly from respected mailers and shippers, and we believe the USPS should pay attention to such customer concerns. Further, any customer who believes such an outcome is possible will likely, in our opinion, “actively consider alternative means for delivery of parcels”. Such customer concerns at some point are likely to result in customer action.

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USPS/APWU-RT2-12. Appendix 3 of your testimony addresses a Priority Mail Model, which your testimony addresses on pages 18-19. Please provide a complete copy of the model together with full documentation of it in accordance with Commission Rule 31(k), thereby allowing replication of its estimation from input data through all processing steps explained to its results.

- a. Please identify each assumption on which this model relies and explain the reasoning that led to adoption of each.
- b. What is your understanding of impacts upon delivery of Priority Mail that the Postal Service expects from Mail Processing Network Rationalization? Upon which materials filed in this docket is that understanding based?

RESPONSE:

See APWU-LR-N2012-1/10, APWU-LR-N2012-1/NP10, APWU-LR-N2012-1/11, APWU-LR-N2012-1/NP11 and APWU-LR-N2012-1/NP12.

- (a) In addition to the above referenced Library Reference, please also refer to the Rebuttal Testimony of APWU Witness Kacha (APWU-RT-3) and Library Reference APWU-LR-N2012-1/NP7. Additionally, Appendix 3 of my testimony, revised May 22, 2012, contains the final report from decision/analysis partners regarding the Priority Mail model results.
- (b) We have no reason to offer conjecture as to what impacts upon delivery of Priority Mail that the Postal Service “expects” from Mail Processing Network Rationalization. Rather, we have sought to review the 3-digit to 3-digit Priority Mail service standards that will be in place immediately following implementation of the network rationalization proposal. As this information has not been made available, we have sought to understand the following:
 - i. data that would support meaningful analysis of post-implementation capabilities and the impact to Priority Mail,
 - ii. analysis performed by or on behalf of the USPS to determine potential impacts to Priority Mail service standards and/or service performance, and
 - iii. the results and conclusions from any such analysis.

Based on the evidentiary record in this case, we would conclude that no such analysis exists at this time.

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Various participants in this case, including APWU have posed, to both the USPS institutionally, and associated witnesses, questions similar to USPS/APWU-RT2-12b. Our understanding of impacts upon delivery of Priority Mail that the Postal Service expects from Mail Processing Network Rationalization is informed by the responses received as documented below:

- **Direct Testimony of USPS Witness Williams (USPS-T-1) at p. 26 (December 5, 2012):**

5. Priority Mail.

Priority Mail is a competitive product for which service standards are not required to be published in the Title 39 of the Code of Federal Regulations. The current service standards associated with Priority Mail range from 1-3 days based on origin-destination 3-digit ZIP Code pairs. The Postal Service will continue to provide a 1-3 day Priority Mail service after network consolidation is implemented. Overnight delivery will continue to be provided to local service areas, with 2-day and 3 day standards from each origin zone to the remainder of the country defined by the capability of the realigned mail processing network. [Emphasis added here]

- **Response of USPS Witness Neri to APWU/USPS-T4-3 (January 12, 2012):**

What impact would the proposed plan have on the actual delivery profile of Priority Mail compared to its actual delivery profile now?

RESPONSE:

The impact will depend upon the results of the individual AMP studies.

- **Response of USPS Witness Williams to APWU/USPS-T1-34 (March 15, 2012):**

Page 26 of your testimony states that “[t]he Postal Service will continue to provide a 1-3 day Priority Mail service after network consolidation is implemented,” and that it will also “continue to provide overnight Express Mail service.” Your testimony further states that for both Priority Mail and Express Mail, “[t]he standards from each origin zone to the remainder of the country will be defined by the capability of the realigned mail processing network.”

a) What will be the impact of the realigned network on the service standards of these competitive products?

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- i. What percentage of Express Mail volume is currently delivered in one day? How will this change under the realigned network?
- ii. What percentage of Priority Mail volume is currently delivered in one day? In two days? In 3 days? In more than three days? What will these figures be under the realigned network?

b) What is the anticipated impact on the parcel components of these competitive products? i. What percentage of Express Mail parcel volume is currently delivered in one day? How will this change under the realigned network?
ii. What percentage of Priority Mail parcel volume is currently delivered in one day? In two days? In 3 days? In more than three days? What will these figures be under the realigned network?

RESPONSE:

a. The service standard day ranges are not changing. However, network changes may result in changes in the expected delivery day within each range for specific origin-destination ZIP Code pairs. Now that almost all facility-specific consolidation determinations have been made, the Postal Service is currently evaluating new service areas and assessing any potential changes required for Express Mail and Priority Mail service standards.

i-ii. The Postal Service is not required to report Express Mail or Priority Mail service performance. Even when it completes realignment of ZIP Code pair service standards as referenced in response to part (a) above, the Postal Service will still not be able to predict the percentage of mail within each product that will be delivered within its applicable service standard in the future

b. See the response to part 'a' above. The Postal Service cannot predict the percentage of parcel-shaped mail within each product that will be delivered within its applicable service standard in the future.

- **Response of USPS Witness Martin to APWU/USPS-T6-7 (March 14, 2012):**

Page 17 of USPS Witness Williams' testimony allows for potential 3-digit [ZIP] to 3-digit ZIP Code changes to service standards based on the reconfiguration of the network.

d) Is Priority [M]ail, both flats and parcels, expected to be affected in the same way?

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e) If so, what percentage of Priority mail would be affected?

RESPONSE:

(d) Because the remapping of ZIP Codes is incomplete, I am unable to provide a complete response to this interrogatory. However, I anticipate that total transit distances for Priority Mail parcels and flats may also increase or decrease, although not necessarily in synchrony with one another.

(e) I interpret this interrogatory part as seeking the percentage of Priority Mail that is expected to be affected by any increases or decreases in transit distances. I understand that the Postal Service has estimated that approximately 22 percent of the Priority Mail processed within the plant network is currently processed at a location that has been approved as a consolidation opportunity. Any such Priority Mail volume could be affected by increases or decreases.

- **USPS Response to APWU/USPS-22 (April 12, 2012):**

Does the Postal Service measure the volume of “turnaround” Priority Mail?

a) What is the current percentage of Priority Mail that currently receives overnight delivery?

b) What percentage of Priority Mail that currently receives overnight delivery will shift to 2-day delivery in the new rationalized network?

RESPONSE:

Preamble) No.

a) Currently, 1.1% of origin-destination 3-digit ZIP Code pairs have an overnight Priority Mail service standard. Further, see the response to APWU/USPS-T1-34. The Postal Service is not required to report Express Mail or Priority Mail performance.

b) See the response to APWU/USPS-T1—34. Even when the Postal Service completes realignment of ZIP Code pair service standards as referenced in response to APWU/USPS-21(b), the Postal Service will still be unable to predict the percentage of Priority

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- **Response of USPS Witness Neri to PR/USPS-T4-15 (April 17, 2012):**

Understanding that any estimate is subject to the current uncertainty over which facilities will be eliminated and how the network will be restructured, please estimate the following:

- a. Percentage of Priority Mail, by revenue and piece count, which will maintain its current service standard, the percentage whose standard will be increased by one day, and the percentage whose standard will increase by two days (if any).
- b. Percentage of Express Mail, by revenue and piece count, which will maintain its current service standard, and the percentage whose standard will be increased by one day.

RESPONSE:

a-b. Please see the responses to interrogatories APWU/USPS-T1-34(a) and APWU/USPS-T4-3 and 4.

Based on the lack of available information evidenced above, it is appropriate to conclude that the possibility exists that Priority Mail service standards and/or service performance will be negatively impacted as a result of network rationalization. Users of Express Mail and Priority Mail products experience some combination of 3-digit Zip Code pairing service standards and actual performance of those service standards today. If users of these competitive products experience something different after network consolidation, including slower standards, a degradation in service performance or both, the risk to existing revenue and profit contribution from customers turning to alternative service providers will be greater.